

# QUARTERLY REPORT

LICENSEE: GREATER BAY HOTEL AND CASINO, INC.

FOR THE QUARTER ENDED MARCH 31, 2002

TO THE  
CASINO CONTROL COMMISSION  
OF THE  
STATE OF NEW JERSEY



TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO

BALANCE SHEETS

Amended

AS OF MARCH 31, 2002 AND 2001

(UNAUDITED)

(\$ IN THOUSANDS)

AMENDED

LINE (a)	DESCRIPTION (b)	2002 (c)	2001 (d)
	<b>ASSETS</b>		
	Current Assets:		
1	Cash and Cash Equivalents.....	\$ 20,602	\$ 17,259
2	Short-Term Investments.....	-	-
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2002, \$12,830; 2001, \$11,112).....	8,744	9,562
4	Inventories.....	2,403	2,722
5	Prepaid Expenses and Other Current Assets.....	1,975	4,987
6	Total Current Assets.....	33,724	34,530
7	Investments, Advances, and Receivables.....	9,671	8,185
8	Property and Equipment - Gross..... Note 6.....	185,863	164,986 *
9	Less: Accumulated Depreciation and Amortization..... Note 6.....	(15,656)	(5,286)
10	Property and Equipment - Net..... Note 6.....	170,207	159,700 *
11	Other Assets.....	3,665	2,238 *
12	Total Assets.....	\$ 217,267	\$ 204,653
	<b>LIABILITIES AND EQUITY</b>		
	Current Liabilities:		
13	Accounts Payable.....	\$ 5,808	\$ 7,305
14	Notes Payable.....	-	-
	Current Portion of Long-Term Debt:		
15	Due to Affiliates..... Note 2.....	-	-
16	Other..... Note 2.....	20	451
17	Income Taxes Payable and Accrued..... Note 3.....	1,260	-
18	Other Accrued Expenses.....	11,536	13,715
19	Other Current Liabilities.....	3,540	4,149
20	Total Current Liabilities.....	22,164	25,620
	Long-Term Debt:		
21	Due to Affiliates..... Note 2.....	110,000	110,000
22	Other..... Note 2.....	347	366
23	Deferred Credits.....	-	-
24	Other Liabilities.....	3,724	4,158
25	Commitments and Contingencies		
26	Total Liabilities.....	136,235	140,144
27	Stockholders', Partners', Or Proprietor's Equity.....	81,032	64,509
28	Total Liabilities and Equity.....	\$ 217,267	\$ 204,653

The accompanying notes are an integral part of the financial statements.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO  
**STATEMENTS OF INCOME**

Amended

8/16/02

FOR THE THREE MONTHS ENDED MARCH 31, 2002 AND 2001

(UNAUDITED)

(\$ IN THOUSANDS)

AMENDED

LINE (a)	DESCRIPTION (b)	2002 (c)	2001 (d)
	Revenue:		
1	Casino.....	\$ 55,670	\$ 53,666
2	Rooms.....	2,746	2,554
3	Food and Beverage.....	6,465	6,741
4	Other.....	928	905
5	Total Revenue.....	65,809	63,866
6	Less: Promotional Allowances..... Note 7.....	12,565	15,265 *
7	Net Revenue.....	53,244	48,601 *
	Costs and Expenses:		
8	Cost of Goods and Services.....	35,162	36,459
9	Selling, General, and Administrative..... Note 7.....	8,515	10,575 *
10	Provision for Doubtful Accounts.....	315	608
11	Total Costs and Expenses.....	43,992	47,642 *
12	Gross Operating Profit.....	9,252	959
13	Depreciation and Amortization.....	2,916	2,640
	Charges from Affiliates Other than Interest:		
14	Management Fees.....	-	-
15	Other.....	-	-
16	Income (Loss) From Operations.....	6,336	(1,681)
	Other Income (Expenses):		
17	Interest (Expense) - Affiliates .....	(2,646)	(3,025)
18	Interest (Expense) - External.....	(84)	(104)
19	Investment Alternative Tax and Related Income (Expense) - Net....	(327)	(324)
20	Nonoperating Income (Expense) - Net.....	129	194
21	Total Other Income (Expenses).....	(2,928)	(3,259)
22	Income (Loss) Before Income Taxes And Extraordinary Items.....	3,408	(4,940)
23	Provision (Credit) for Income Taxes..... Note 3.....	1,260	(1,591)
24	Income (Loss) Before Extraordinary Items.....	2,148	(3,349)
25	Extraordinary Items (Net of Income Taxes - 2002, \$ - ; 2001, \$ - ).....	-	-
26	Net Income (Loss).....	\$ 2,148	\$ (3,349)

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2001 AND THE THREE MONTHS ENDED MARCH 31, 2002

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	Description (b)	Common Stock		Preferred Stock		Additional Paid-In Capital (g)	(h)	Retained Earnings (Accumulated) (Deficit) (i)	Total Stockholders' Equity (Deficit) (j)
		Shares (c)	Amount (d)	Shares (e)	Amount (f)				
1	Balance, December 31, 2000 .....	100	\$ -		\$	65,859	\$	(7,500)	\$ 58,359
2	Net Income (Loss) - .....							(3,274)	(3,274)
3	Contribution to Paid-in-Capital .....					23,800			23,800
4	Dividends.....								
5	Prior Period Adjustments.....							(1)	(1)
6	.....								
7	.....								
8	.....								
9	.....								
10	Balance, December 31, 2001.....	100	-			89,659		(10,775)	78,884
11	Net Income (Loss) - 2002.....							2,148	2,148
12	Contribution to Paid-in - Capital.....								0
13	Dividends.....								
14	Prior Period Adjustments.....								
15	.....								
16	.....								
17	.....								
18	.....								
19	Balance, March 31, 2002.....	100	\$ -		\$	89,659	\$	(8,627)	\$ 81,032

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO

**STATEMENTS OF CHANGES IN PARTNERS'  
OR PROPRIETOR'S EQUITY**

**FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2001  
AND THE THREE MONTHS ENDED MARCH 31, 2002**

(UNAUDITED)

(\$ IN THOUSANDS)

NOT APPLICABLE

LINE (a)	DESCRIPTION	Contributed Capital (c)	Accumulated Earnings (Deficit) (d)	(e)	Total Equity (Deficit) (f)
1	Balance, December 31, _____	\$	\$	\$	\$
2	Net Income (Loss) - _____				
3	Capital Contributions.....				
4	Capital Withdrawals.....				
5	Partnership Distributions.....				
6	Prior Period Adjustments.....				
7	_____				
8	_____				
9	_____				
10	Balance, December 31, _____				
11	Net Income (Loss) - _____				
12	Capital Contributions.....				
13	Capital Withdrawals.....				
14	Partnership Distributions.....				
15	Prior Period Adjustments.....				
16	_____				
17	_____				
18	_____				
19	Balance, _____	\$	\$	\$	\$

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

**TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2002 AND 2001**

(UNAUDITED)

(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2002 (c)	2001 (d)
1	NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES.....	\$ 3,677	\$ (5,511)
	CASH FLOWS FROM INVESTING ACTIVITIES:		
2	Purchase of Short-Term Investment Securities.....	-	-
3	Proceeds from the Sale of Short-Term Investment Securities.....	-	-
4	Cash Outflows for Property and Equipment.....	(1,923)	(3,821)
5	Proceeds from Disposition of Property and Equipment .....	15	5
6	Purchase of Casino Reinvestment Obligations.....	(670)	(651)
7	Purchase of Other Investments and Loans/Advances made.....	-	-
8	Proceeds from Disposal of Investments and Collection of Advances and Long-Term Receivables.....	-	-
9	Cash Outflows to Acquire Business Entities (net of cash acquired).	-	-
10			
11			
12	Net Cash Provided (Used) By Investing Activities.....	(2,578)	(4,467)
	CASH FLOWS FROM FINANCING ACTIVITIES:		
13	Cash Proceeds from Issuance of Short-Term Debt.....	-	-
14	Payments to Settle Short-Term Debt.....	-	-
15	Cash Proceeds from Issuance of Long-Term Debt.....	-	-
16	Costs of Issuing Debt.....	-	-
17	Payments to Settle Long-Term Debt.....	(4)	(21)
18	Cash Proceeds from Issuing Stock or Capital Contributions.....		9,500
19	Purchases of Treasury Stock.....	-	-
20	Payments of Dividends or Capital Withdrawals.....	-	-
21			
22			
23	Net Cash Provided (Used) By Financing Activities.....	(4)	9,479
24	Net Increase (Decrease) In Cash And Cash Equivalents.....	1,095	(499)
25	Cash And Cash Equivalents At Beginning Of Period.....	19,507	17,758
26	Cash And Cash Equivalents At End Of Period.....	\$ 20,602	\$ 17,259

	CASH PAID DURING PERIOD FOR:		
27	Interest (Net of Amount Capitalized).....	\$ 5,680	\$ 6,067
28	Income Taxes.....	\$ -	\$ -

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

**TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO**  
**STATEMENTS OF CASH FLOWS**

FOR THE THREE MONTHS ENDED MARCH 31, 2002 AND 2001

(UNAUDITED)

(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2002 (c)	2001 (d)
	<b>NET CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
29	Net Income (Loss).....	\$ 2,148	\$ (3,349)
	Noncash Items Included in Income and Cash Items		
	Excluded from Income:		
30	Depreciation and Amortization of Property and Equipment....	2,728	2,580
31	Amortization of Other Assets.....	188	60
32	Amortization of Debt Discount or Premium.....	-	-
33	Deferred Income Taxes - Current.....	-	-
34	Deferred Income Taxes - Noncurrent.....	-	-
35	(Gain) Loss on Disposition of Property and Equipment.....	(15)	(5)
36	(Gain) Loss on Casino Reinvestment Obligations.....	327	324
37	(Gain) Loss from Other Investment Activities.....	-	-
	Net (Increase) Decrease in Receivables and Patrons'		
38	Checks.....	240	1,410
39	Net (Increase) Decrease in Inventories.....	28	129
40	Net (Increase) Decrease in Other Current Asset.....	1,043	(1,121)
41	Net (Increase) Decrease in Other Assets.....	24	(20)
42	Net Increase (Decrease) in Accounts Payable.....	(1,035)	(2,517)
	Net Increase (Decrease) in Other Current Liabilities		
43	Excluding Debt.....	(2,053)	(3,055)
	Net Increase (Decrease) in Other Noncurrent Liabilities		
44	Excluding Debt.....	54	53
45			
46			
47	Net Cash Provided (Used) By Operating Activities.....	\$ 3,677	\$ (5,511)

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

	<b>ACQUISITION OF PROPERTY AND EQUIPMENT:</b>		
48	Additions to Property and Equipment.....	\$ 1,923	\$ 3,821
49	Less: Capital Lease Obligations Incurred.....	-	-
50	Cash Outflows For Property And Equipment.....	\$ 1,923	\$ 3,821
	<b>ACQUISITION OF BUSINESS ENTITIES:</b>		
51	Property and Equipment Acquired.....	\$	\$
52	Goodwill Acquired.....		
53	Net Assets Acquired Other than Cash, Goodwill, and Property and Equipment.....		
54	Long-Term Debt Assumed.....		
55	Issuance of Stock or Capital Invested.....		
56	Cash Outflows To Acquire Business Entities.....	\$ -	\$ -
	<b>STOCK ISSUED OR CAPITAL CONTRIBUTIONS:</b>		
57	Total Issuances of Stock or Capital Contributions.....	\$ -	\$ 9,500
58	Less: Issuances to Settle Long-Term Debt.....	-	-
59	Consideration in Acquisition of Business Entities.....	-	-
60	Cash Proceeds From Issuing Stock Or Capital Contributions.....	\$ -	\$ 9,500

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL AND CASINO  
**SCHEDULE OF PROMOTIONAL  
EXPENSES AND ALLOWANCES**

(\$ IN THOUSANDS)

FOR THE THREE MONTHS ENDED MARCH 31, 2002

Amended

8/16/02

AMENDED

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	79,916	\$ 1,634		\$
2	Food	154,661	2,352		
3	Beverage	885,417	1,327		
4	Travel			507	316
5	Bus Program Cash	142,288	2,175		
6	Other Cash Complimentaries	63,634	4,942		
7	Entertainment	1,443	50		
8	Retail & Non-Cash Gifts			244,305	1,323
9	Parking			106,379	159
10	Other	10,599	85		
11	Total	1,337,958	\$ 12,565	351,191	\$ 1,798

FOR THE THREE MONTHS ENDED MARCH 31, 2002

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	79,916	\$ 1,634		\$
2	Food	154,661	2,352		
3	Beverage	885,417	1,327		
4	Travel			507	316
5	Bus Program Cash	142,288	2,175		
6	Other Cash Complimentaries	63,634	4,942		
7	Entertainment	1,443	50		
8	Retail & Non-Cash Gifts			244,305	1,323
9	Parking			106,379	159
10	Other	10,599	85		
11	Total	1,337,958	\$ 12,565	351,191	\$ 1,798



# **GREATE BAY HOTEL AND CASINO, INC.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

### **(1) Organization, Business and Basis of Presentation**

Greate Bay Hotel and Casino, Inc. ("GBHC") is a New Jersey corporation and wholly owned subsidiary of GB Holdings, Inc. ("Holdings"), a Delaware corporation. Holdings was a wholly owned subsidiary of Pratt Casino Corporation ("PCC") through December 31, 1998. PCC, a Delaware corporation, was incorporated in September 1993 and was wholly owned by PPI Corporation ("PPI"), a New Jersey corporation and a wholly owned subsidiary of Greate Bay Casino Corporation ("GBCC"). Effective after December 31, 1998, PCC transferred 21% of the stock ownership in Holdings to PBV, Inc. ("PBV"), a newly formed entity controlled by certain stockholders of GBCC. As a result of a certain confirmed plan of reorganization of PCC and others in October 1999, the remaining 79% stock interest of PCC in Holdings was transferred to Greate Bay Holdings, LLC ("GBLLC"), whose sole member as a result of the same reorganization was PPI. In February 1994, Holdings acquired GBHC through a capital contribution by its then parent. GBHC's principal business activity is its ownership of the Sands Hotel and Casino located in Atlantic City, New Jersey (the "Sands"). GB Property Funding Corp. ("GB Property Funding"), a Delaware corporation and a wholly owned subsidiary of Holdings, was incorporated in September 1993 as a special purpose subsidiary of Holdings for the purpose of borrowing funds for the benefit of GBHC. Effective September 2, 1998, GBHC acquired the membership interests in Lieber Check Cashing LLC ("Lieber"), a New Jersey limited liability company that owned a land parcel adjacent to GBHC.

The accompanying consolidated financial statements include the accounts and operations of GBHC and Lieber. All significant intercompany balances and transactions have been eliminated.

On January 5, 1998, GBHC, Holdings and GB Property Funding filed petitions for relief under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of New Jersey (the "Bankruptcy Court"). On August 14, 2000, the Bankruptcy Court entered an order (the "Confirmation Order") confirming the Modified Fifth Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code Proposed by the Official Committee of Unsecured Creditors and High River Limited Partnership and its Affiliates (the "Plan") for GBHC, Holdings and GB Property Funding. High River Limited Partnership ("High River") is an entity controlled by Carl C. Icahn. On September 13, 2000, the New Jersey Casino Control Commission (the "Commission") approved the Plan. On September 29, 2000, the Plan became effective (the "Effective Date"). All material conditions precedent to the Plan becoming effective were satisfied on or before September 29, 2000.

A significant amount of the Sands' revenues are derived from patrons living in northern New Jersey, southeastern Pennsylvania and metropolitan New York City. Competition in the Atlantic City gaming market is intense and management believes that this competition will continue or intensify in the future.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# GREATER BAY HOTEL AND CASINO, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) (Unaudited)

Certain reclassifications have been made to the prior year's consolidated financial statements to conform to the current year consolidated financial statement presentations.

### (2) Long-Term Debt

Long-term debt is comprised of the following:

	<u>March 31, 2002</u>	<u>March 31, 2001</u>
11% notes, due 2005 (a)	\$ 110,000,000	\$ 110,000,000
Lieber mortgage	-	433,000
Other	<u>367,000</u>	<u>384,000</u>
 Total indebtedness	 110,367,000	 110,817,000
Less - current maturities	<u>(20,000)</u>	<u>(451,000)</u>
 Total long-term debt	 <u><u>\$ 110,347,000</u></u>	 <u><u>\$ 110,366,000</u></u>

- (a) As a result of the Confirmation Order and the occurrence of the Effective Date and under the terms of the Plan, GB Property Funding issued \$110,000,000 of 11% notes due 2005 (the "New Notes"). Interest on the New Notes is payable on March 29 and September 29, beginning March 29, 2001. The outstanding principal is due on September 29, 2005. The New Notes are unconditionally guaranteed, on a joint and several basis, by both Holdings and GBHC, and are secured by substantially all of the assets, as of the Effective Date, other than cash and gaming receivables of Holdings and GBHC.

The original indenture for the New Notes contained various provisions, which, among other things, restricted the ability of Holdings, and GBHC to incur certain senior secured indebtedness beyond certain limitations and contained certain other limitations on the ability to merge, consolidate, or to sell substantially all of their assets, to make certain restricted payments, to incur certain additional senior liens, and to enter into certain sale-leaseback transactions.

In a Consent Solicitation Statement and Consent Form dated September 14, 2001, GB Property Funding sought the consent of holders of the New Notes to make certain changes to the original indenture (the "Modifications"). The Modifications included, but were not limited to, a deletion of, or changes to, certain provisions the result of which would be (i) to permit Holdings and its subsidiaries to incur any additional indebtedness without restriction, to issue preferred stock without restriction, to make distributions in respect of preferred stock and to prepay indebtedness without restriction, to incur liens without restriction and to enter into sale-leaseback transactions without restriction, (ii) to add additional exclusions to the definition of "asset sales" to exclude from the restrictions on "asset sales" sale-leaseback transactions, conveyances or contributions to any entity in which Holdings or its subsidiaries has or obtains equity or debt interests, and transactions (including the granting of liens) made in accordance with another provision of the Modifications relating to collateral release and subordination or any documents entered into in connection with an "approved project" (a new definition included as part of the

**GREATER BAY HOTEL AND CASINO, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

Modifications which includes, if approved by the Board of Directors of Holdings, incurrence of indebtedness or the transfer of assets to any person if Holdings or any of its subsidiaries has or obtain debt or equity interests in the transferee or any similar, related or associated event, transaction or activity) in which a release or subordination of collateral has occurred including, without limitation, any sale or other disposition resulting from any default or foreclosure, (iii) to exclude from the operation of covenants related to certain losses to collateral any assets and any proceeds thereof, which have been subject to the release or subordination provisions of the Modifications, (iv) to permit the sale or other conveyances of Casino Reinvestment Development Authority investments in accordance with the terms of a permitted security interest whether or not such sale was made at fair value, (v) to exclude from the operation of covenants related to the deposit into a collateral account of certain proceeds of "asset sales" or losses to collateral any assets and any proceeds thereof, which have been subject to the release or subordination provisions of the Modifications, (vi) to add new provisions authorizing the release or subordination of the collateral securing the New Notes in connection with, in anticipation of, as a result of, or in relation to, an "approved project", and (vii) various provisions conforming the text of the original indenture to the intent of the preceding summary of the Modifications.

Holders representing approximately 98% in principal amount of the New Notes provided consents to the Modifications. Under the terms of the original indenture, the consent of holders representing a majority in principal amount of New Notes was a necessary condition to the Modifications. Accordingly, GB Property Funding, as issuer, and Holdings and GBHC, as guarantors, and Wells Fargo Bank Minnesota, National Association, as Trustee, entered into an Amended and Restated Indenture dated as of October 12, 2001, containing the Modifications to the original indenture described in the Consent Solicitation Statement (the "Amended and Restated Indenture"). In accordance with the terms of the Consent Solicitation Statement, holders of New Notes, who consented to the Modifications and who did not revoke their consents ("Consenting Noteholders"), were entitled to \$17.50 per \$1,000 in principal amount of New Notes, subject to certain conditions including entry into the Amended and Restated Indenture. Upon entry into the Amended and Restated Indenture on October 12, 2001, GBHC transferred approximately \$1.9 million to the Trustee for distribution to Consenting Noteholders.

**GREATER BAY HOTEL AND CASINO, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

Scheduled payments of long-term debt as of March 31, 2002, are set forth below:

2002 (nine months)	\$	15,000
2003		21,000
2004		23,000
2005		110,026,000
2006		28,000
Thereafter		254,000
Total	\$	<u>110,367,000</u>

Interest paid amounted to \$6,059,000 and \$6,068,000 respectively, for the three months ended March 31, 2002 and 2001. At March 31, 2002 and 2001, accrued interest on the New Notes was \$67,000 and \$67,000, respectively.

**(3) Income Taxes**

The components of the benefit (provision) for income taxes are as follows:

	<b>Three Months Ending March 31,</b>	
	<b>2002</b>	<b>2001</b>
Federal income tax benefit (provision):		
Current	\$ (1,260,000)	\$ 1,591,000
Deferred	-	-
State income tax benefit (provision):		
Current	-	-
Deferred	-	-
	<u>\$ (1,260,000)</u>	<u>\$ 1,591,000</u>

Prior to 1997, the Company was included in the consolidated federal income tax return of Hollywood Casino Corporation ("HCC"). The Company's operations were included in GBCC's consolidated federal income tax returns for the years ended December 31, 1998 and 1997, but GBCC agreed to allow the Company to become deconsolidated from the GBCC group effective after December 31, 1998. In accordance therewith, PCC transferred 21% of the stock ownership in Holdings to PBV, effecting the deconsolidation of the Company from the GBCC group for federal income tax purposes (the "Deconsolidation"). Accordingly, beginning in 1999, the Company's provision for federal income taxes has been calculated and paid on a consolidated basis.

At March 31, 2002, GBHC had deferred tax assets including State net operating losses, Federal credit carryforwards and temporary differences. The State net operating losses ("State NOL's") begin to expire in the year 2003 for state tax purposes. A portion of the credit carryforwards, if not utilized, will begin to expire each year through 2004. The remaining credit

## **GREATE BAY HOTEL AND CASINO, INC.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)** **(Unaudited)**

carryforwards expire through the year 2019. In addition, as part of a certain settlement agreement, GBCC may utilize Federal net operating losses ("Federal NOL's") of GBHC through December 31, 1998 to offset federal taxable income of GBCC and other members of its consolidated tax group. GBHC has utilized the balance of its Federal NOL's in its 1999 (amended) and 2000 consolidated Federal tax returns. Statement of Financial Accounting Standards No. 109 ("SFAS 109") requires that the tax benefit of NOL's and deferred tax assets resulting from temporary differences be recorded as an asset and, to the extent that management can not assess that the utilization of all or a portion of such NOL's and deferred tax assets is more likely than not, requires the recording of a valuation allowance. Due to various uncertainties, management is unable to determine that realization of GBHC's deferred tax asset is more likely than not and, thus, has provided a valuation allowance for the entire amount at March 31, 2002.

The Internal Revenue Service is examining the consolidated federal income tax returns of HCC for the years 1995 and 1996 and the consolidated federal income tax returns for GBCC for the years 1997 and 1998 in which the Company was included (the "Audit"). GBCC management has disclosed in its annual SEC Form 10-K, filed for the year ended December 31, 2001, that the Audit is substantially complete and has resulted in adjustments to GBCC's Federal NOL's and deferred tax assets. GBHC is dependent upon receipt of information from HCC and GBCC as to their operations including their affiliates and the impact of those operations on the former HCC and GBCC consolidated groups' Federal NOL's. GBHC has not yet received information regarding the details of the Audit adjustments and, therefore, is unable to estimate their impact on GBHC's financial position or results of operations.

The State of New Jersey is examining the state corporate business tax return of GBHC for the years 1996, 1997 and 1998. It is management's position that any claims by the State of New Jersey against GBHC attributable to anytime prior to January 5, 1998 is barred by applicable provisions of the Bankruptcy Code. Management is presently unable to estimate the impact of New Jersey's tax audit on the financial position or results of operations of GBHC.

Federal and State income tax benefits or provisions are based upon the results of operations for the current period and the estimated adjustments for income tax purposes of certain nondeductible expenses. The Federal income tax provision of approximately \$1.3 million for the three months ended March 31, 2002 is a result of applying the statutory Federal income tax rate of 35% to the pretax income after adjustments for income tax purposes.

#### **(4) Transactions with Related Parties**

GBHC's rights to the trade name "Sands" (the "Trade Name") were derived from a license agreement between GBCC and an unaffiliated third party. Amounts payable by the Sands for these rights were equal to the amounts paid to the unaffiliated third party. As a result of the Confirmation Order and the occurrence of the Effective Date and under the terms of the Plan, GBHC was assigned by High River the rights under a certain agreement with the owner of the Trade Name to use the Trade Name as of the Effective Date. High River received no payments for its assignment of these rights. Payment is made directly to the owner of the Trade Name. The calculation of the license fee is the same as under the previous agreement. Such charges amounted to \$68,000 and \$60,000, respectively, for the three months ended March 31, 2002 and 2001.

# GREATER BAY HOTEL AND CASINO, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) (Unaudited)

Excluding the New Notes, there were no affiliate advances and borrowings for the three months ended March 31, 2002 and 2001, respectively. Excluding the New Notes, there was no interest expense incurred with respect to affiliate advances and borrowings for the three months ended March 31, 2002 and 2001, respectively.

### (5) Legal Proceedings

GBHC has filed tax appeals with the New Jersey Tax Court challenging the amount of its real property assessment for calendar years 1996 through 2001, inclusive, and has filed an appeal for calendar year 2002 with the Atlantic County Tax Board. The City of Atlantic City has also appealed the amount of the assessments for the years 1996 through 2001, inclusive, and has filed a cross-petition with the Atlantic County Tax Board for calendar year 2002.

GBHC has discovered certain failures relating to currency transaction reporting and self-reported the situation to the applicable regulatory agencies. GBHC has conducted an internal examination of the matter and the New Jersey Division of Gaming Enforcement is conducting a separate review. GBHC has revised internal control processes and taken other measures to address the situation. GBHC may be subjected to regulatory remedies, which may include cash penalties. However, the potential cash penalties cannot be estimated at this time.

GBHC is a party in various legal proceedings with respect to the conduct of casino and hotel operations. Although a possible range of losses cannot be estimated, in the opinion of management, based upon the advice of counsel, GBHC does not expect settlement or resolution of these proceedings to have a material adverse impact upon the consolidated financial position or results of operations of GBHC, but the outcome of litigation is subject to uncertainties and no assurances can be given. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of the uncertainties described above.

### (6) Property and Equipment

Property and equipment consisted of the following :

	March 31,	
	2002	2001
Land	\$ 54,814,000	\$ 54,814,000
Buildings and improvements	89,006,000	82,108,000
Operating equipment	28,713,000	20,777,000
Construction in progress	13,330,000	7,287,000
	185,863,000	164,986,000
Less: accumulated depreciation and amortization	(15,656,000)	(5,286,000)
Net property and equipment	\$ 170,207,000	\$ 159,700,000

**GREATER BAY HOTEL AND CASINO, INC.**

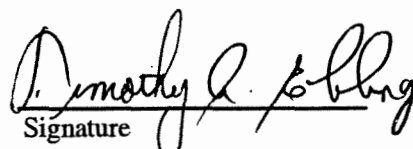
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**(7) New Accounting Pronouncements**

In January 2001, the Emerging Issues Task Force (EITF) reached a consensus on certain issues within Issue No. 00-22: "Accounting for 'Points' and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future" (EITF 00-22). Application of EITF 00-22 is required for interim and annual periods ending after February 15, 2001. EITF 00-22 requires volume-based cash rebates to be classified as a reduction of revenue. GBHC has adopted EITF 00-22 on the accompanying statements of operations and has included its volume-based cash rebates as a component of Promotional Allowances for the three months ended March 31, 2002 and 2001. Accordingly, the related number of recipients and dollar amounts are disclosed as promotional allowances within Other Cash Complimentaries on the Schedule of Promotional Expenses and Allowances for the three months ended March 31, 2002.

STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

1. I have examined this Quarterly Report.
2. All the information contained in this Quarterly Report has been prepared in conformity with the Casino Control Commission's Quarterly Report Instructions and Uniform Chart of Accounts.
3. To the best of my knowledge and belief, the information contained in this report is accurate.
4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report has remained in compliance with the financial stability regulations contained in N.J.A.C. 19:43-4.2(b)1-5 during the quarter.



Signature

Timothy A. Ebling  
Executive Vice President,  
Chief Financial Officer

Title

003052-11

License Number

On Behalf Of:

Greate Bay Hotel And Casino, Inc.  
Casino Licensee